



Crossing the Finish Line: *How to Prepare for the Exit*

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Introduction

- Navidar is a **Technology and Services-focused investment banking firm specializing in M&A and capital raising advisory services for middle-market companies in the middle corridor of the U.S.**
- Our principals have executed more than **325 M&A transactions and financings**, representing over **\$70 billion** in deal volume
- **Creating wealth for entrepreneurs in Texas:**

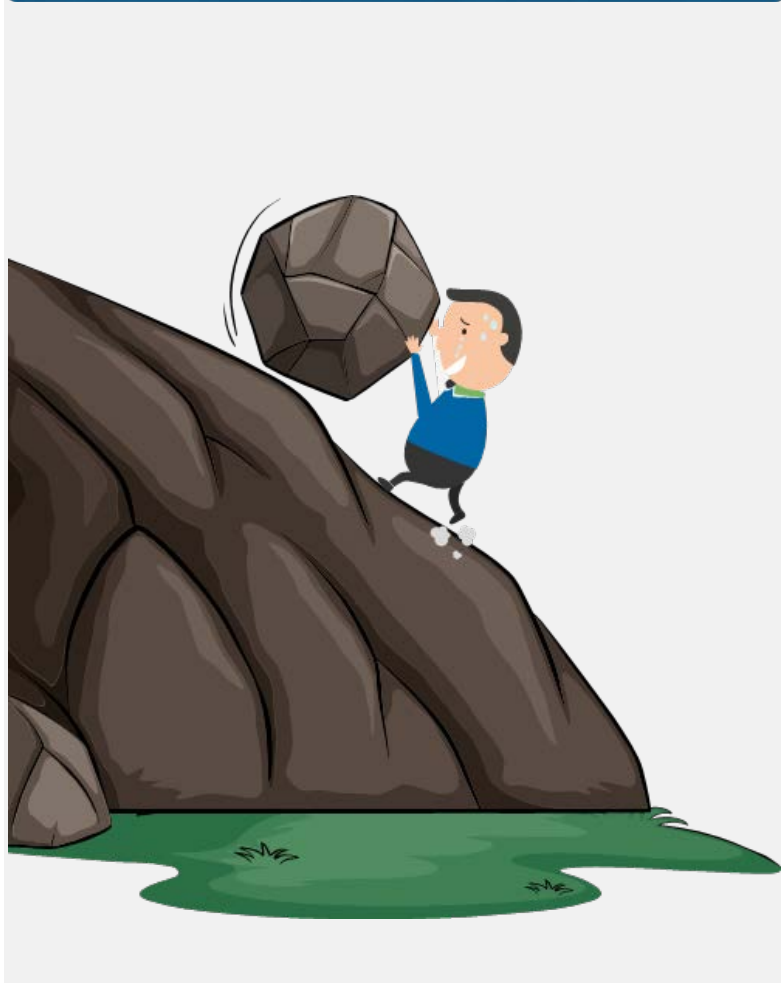


- **Our differentiated model centers around customized, tailored processes to achieve outlier valuations and superior legal terms**



Getting Across the Finish Line

Blood, Sweat and Tears



Tangible Wealth





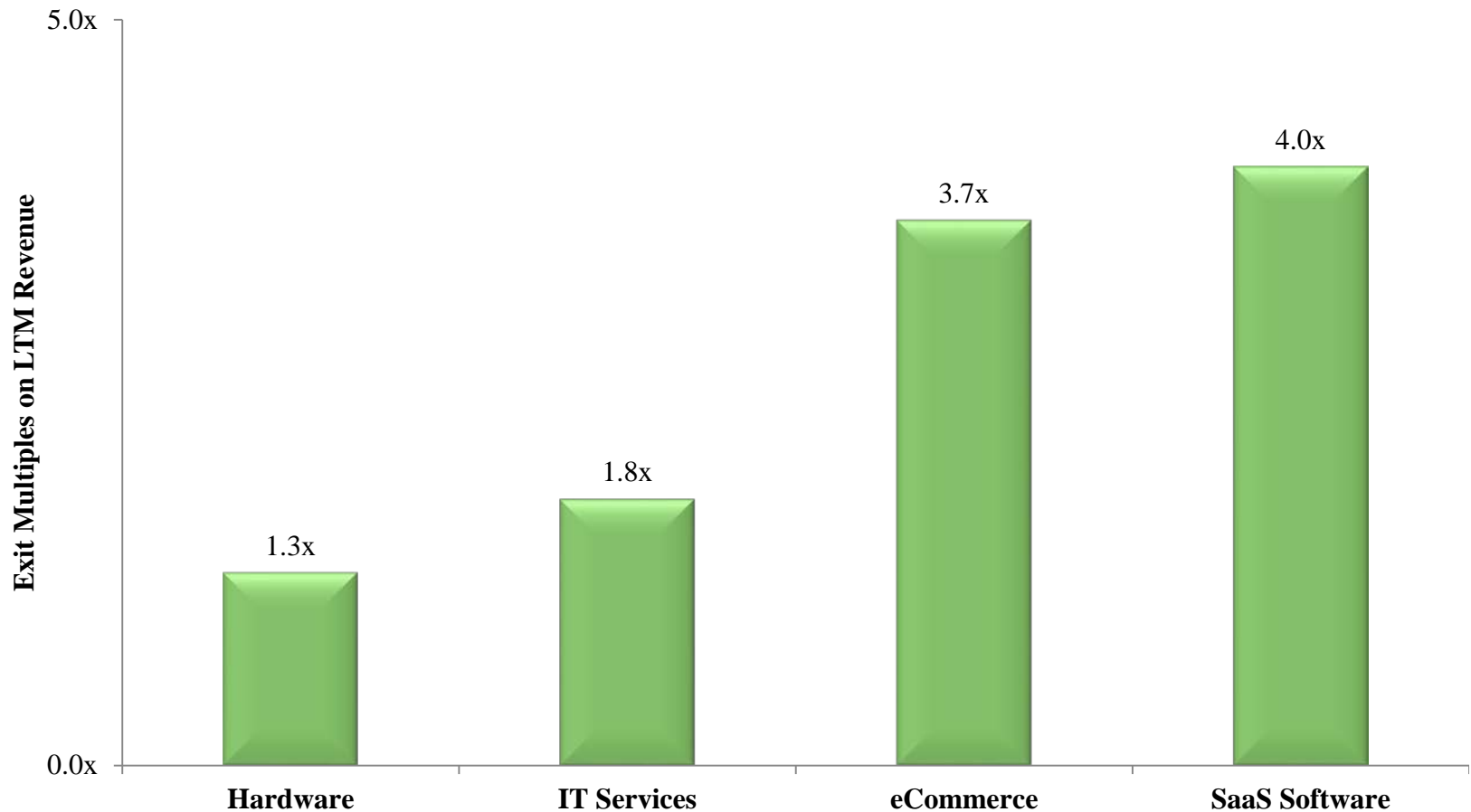
Activities that Create \$1 of Revenue...





...But the Exit Creates Multiples of Revenue

So Why Spend Less Strategic Focus on the Exit?

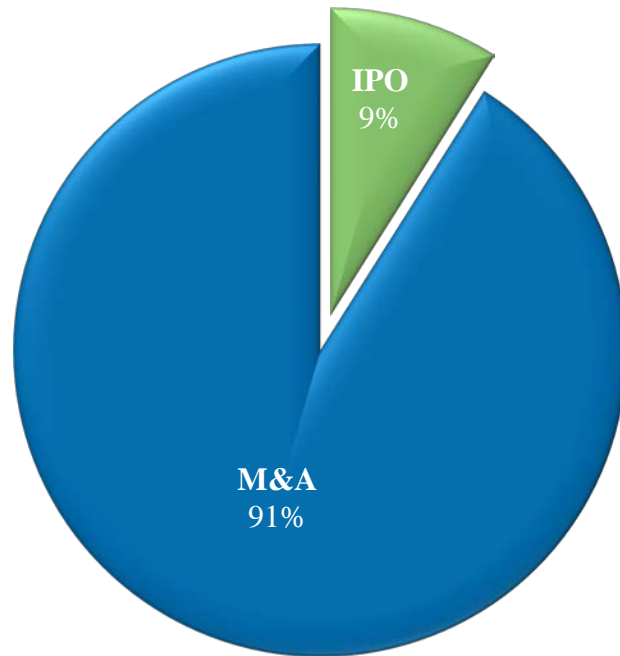


Source: S&P Capital IQ.

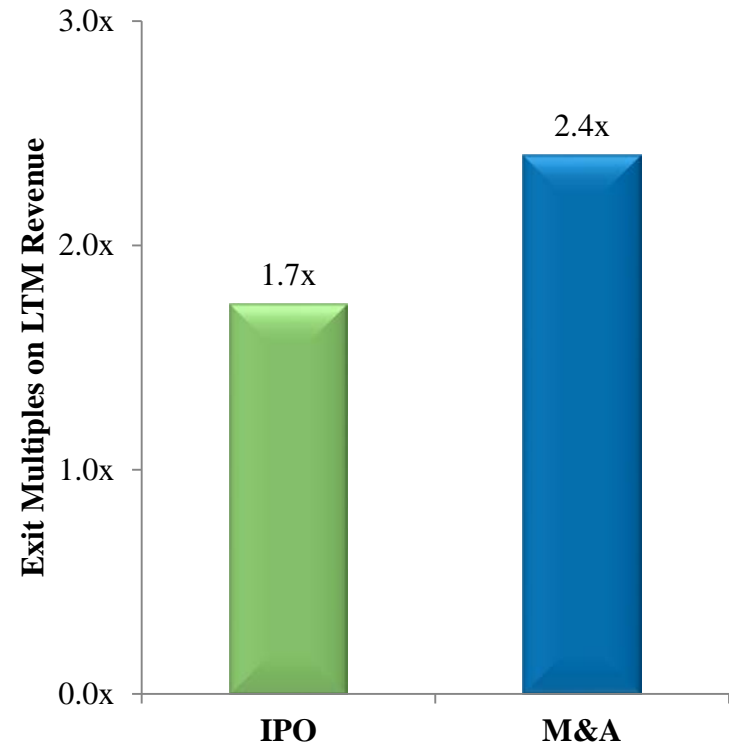


Most Private Companies Exit via M&A, Not IPO

Private Company Exits



Exit Valuations

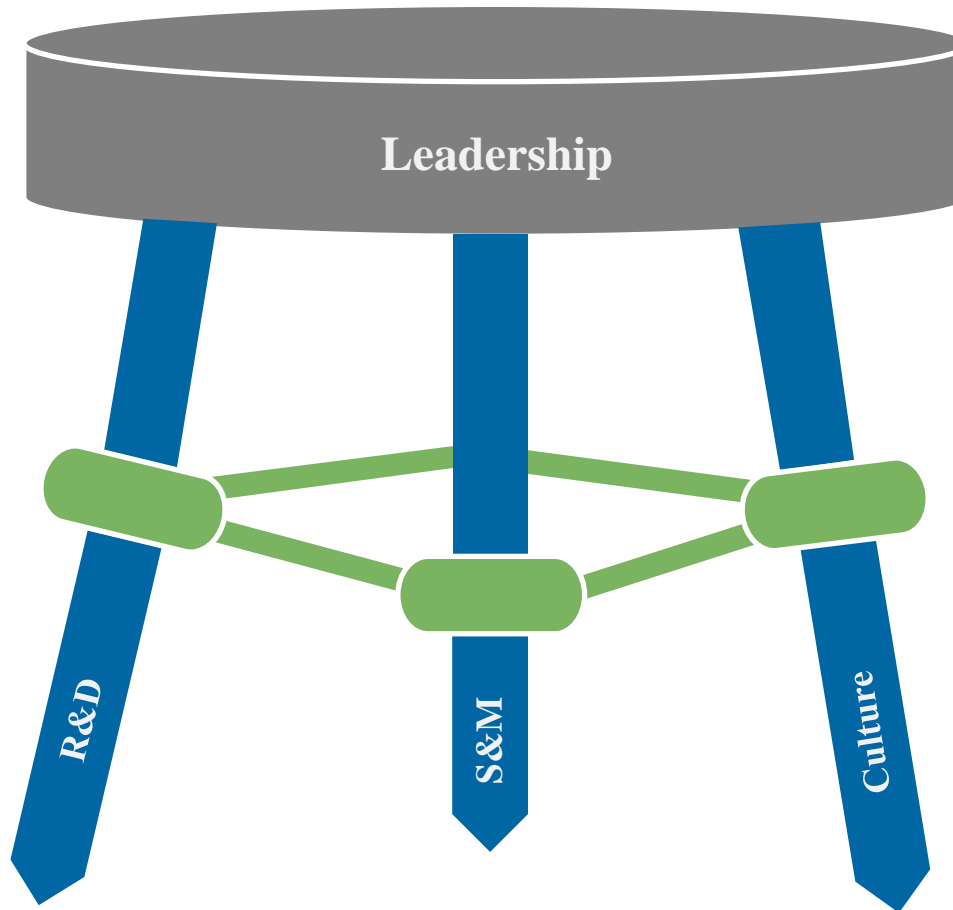


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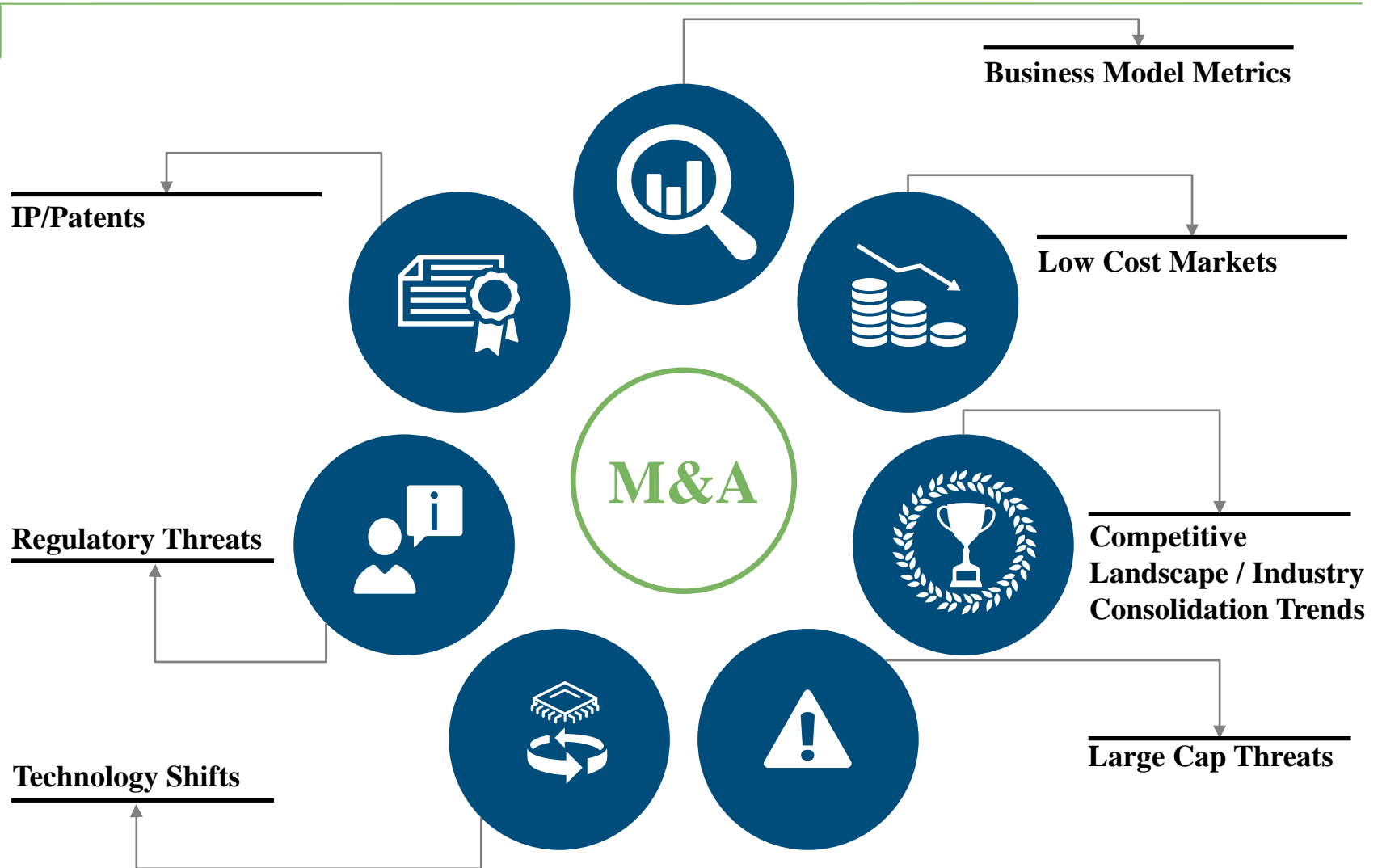
Building a Balanced Business

If any of These Items are Missing, they Become Valuation Detractors.





Planning for the Exit – Day One





Key SaaS Metrics

Revenue Growth / Mix

- **Subscription Revenue Growth**
- **Monthly Recurring Revenue**
- **Annual Contract Value**
- **Percentage of Recurring Revenue**
- **Percentage of Professional Services**

Customers

- **Average Revenue per Customer**
- **Customer Acquisition Costs**
- **Annual Non-Renewal Rates**
- **Churn Rates**
- **Lifetime Customer Value**
- **Cohort Data**

Margin Structure

- **Gross Margin Percentage**
- **Sales & Marketing as a % of Total Revenue**
- **Research & Development as a % of Total Revenue**
- **General & Administrative as a % of Total Revenue**

Capital Efficiency

- **Total Capital Raised to Date**
- **Time to Breakeven**
- **Deferred Revenue Collection Rates**



Relationship Groundwork



- **Meet Your Competitors**
- **Public Profile**
- **Online Presence**
- **Conferences**

- **Sales Partnerships**
- **Product Integrations**
- **Joint Customer Marketing**
- **Stellar Customer References**



Determining When to Exit

Internal Catalysts

Founder is Ready and Wants to Sell

Funding Hurdle

Internal Dynamics

Confidence in Prospects for Future

Complicated Capital Structure

External Catalysts

Inbound M&A Offer(s)

Change in Market Dynamics

Leading Competitor Acquired



Assembling Your Cast of Characters

Shareholders

- Valuation
- Timing
- Control/Non-Control
- Structure
- Team Retention

Management

- Initial Team
- Future Team Additions
- Bonus Retention Plans?
- Stock Option Plans

Advisors

- Banking
- Legal
- Accounting
- IP/Technical



The Private Sale Option, When Done Correctly, Presents the Greatest Opportunity for an Outlier Valuation

Experienced Advisors Generate a Large ROI Given the Information Gap.

Topic	Transparency Rating	
	Public Markets	Private Markets
■ Valuation	■ High	■ Low to Zero
■ Structure	■ High	■ Low to Zero
■ Legal Terms	■ High	■ Medium to Zero
■ Capital Raising Terms	■ High	■ Low to Zero



The Sale Process Involves Numerous Elements



Source: Grant Thornton and Navidar.



The Critical Checklist

- **Track Key Operating Metrics that Will Be Important to Acquirers**
- **Demonstrate Ability to Grow Within Your Existing Customer Base and Target Market**
- **Product Roadmap and Growth Plan Must be Supportable**
- **Large and Growing Pipeline and Ability to Convert Pipeline Historically**
- **Acquirers Like Clean Capital and Legal Structures!**
- **Identify Potential Issues Early**
- **Establish Relationships with Logical Acquirers Early (Customer Relationships, Partnerships, etc.)**
- **Stage M&A Process – Logical Buyers May be Cross-Border**
- **Get an Audit**



Creating Value

$$\text{Price} = V + (S + C)^e$$

↑
“Scientific” Value
(Baseline)

↑
Story
(Developing a
Compelling
Story)

↑
Competition
(Using a Competitive
Process)

↑
emotion
(Evoking Buyer Emotion)

■ Other Important Factors in Driving the Best Price:

- Effective and Customized Process
- Avoid Process Mistakes
- Negotiate from Position of Strength



Approaches to Valuing a Business

Each of the Below Methodologies Provides Insight Into the Valuation of a Business.

Methodology

Comparison to Publicly Traded Companies

Comparison to Related M&A Transactions

Discounted Cash Flow Analysis – Terminal Value Method

Leveraged Buyout and VC Investment Analysis

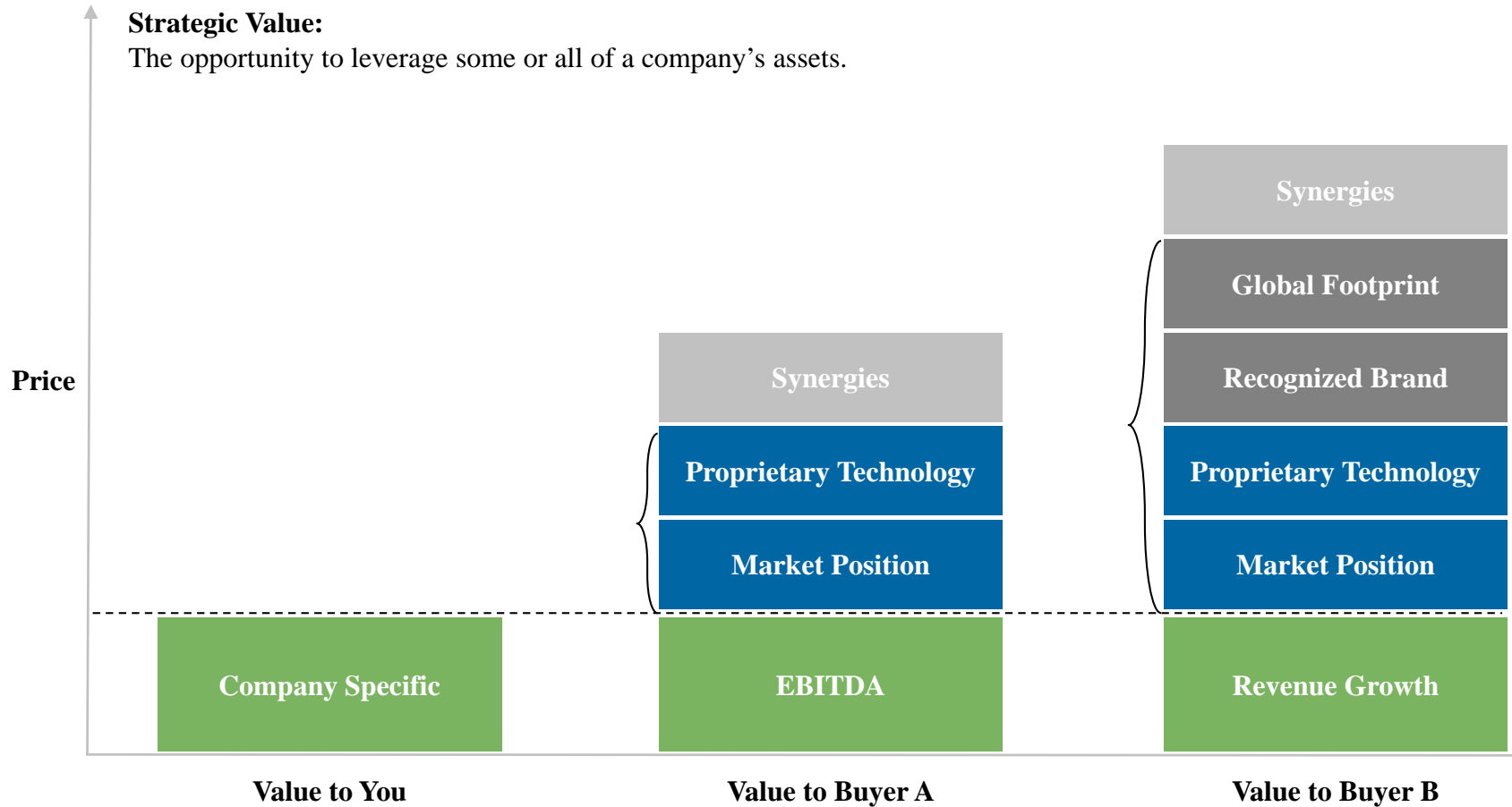
Synergy Analysis

At the End of the Day, a Business is Worth What Someone is Willing to Pay for It



Buyers May Have Differing Valuation Frameworks

Use the Imperfections of the Private Markets to Your Advantage.



Source: Grant Thornton and Navidar.



Key Mistakes to Avoid in the M&A Process

Mistakes Can Decrease the Value of a Company

- **Negotiation Strategy Mismatched with Actions**
- **Anticipating Deal Issues Too Late**
- **Lackluster and Unfocused Process**
- **Improperly Positioning the Story**
- **Disconnect between Market Opportunity and Model**
- **Analytical Support Not Fully Developed**
- **Answering Due Diligence Questions Poorly**

Avoid





Concluding Thoughts

The Decision to Sell is an Important One

The M&A Market is Very Inefficient

It Pays to Prepare Early for the Sale

Valuation is Multi-Pronged

Positioning Your Story for Buyers is Key

Avoid Mistakes and Get Good Advice



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